



# ...and another thing

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## Spinning Wheels Got to Go 'Round

What goes up must come down. That's the fundamental law of gravity and a lyric from the hit song "Spinning Wheel" by Blood, Sweat and Tears. Unfortunately, it is also the recent condition of the housing market in most of the United States. The housing market is reeling from the downturns in housing values after monumental gains seen in 2004 and 2005. In addition, a large number of "creative" loans resulted in payments that, after a couple of years, many households could not make. The fallout is homes that are now worth less than the current mortgage balance and mortgage payments that have increased and are beyond the means of some homeowners.

The rash of home foreclosures resulting from these conditions are a national phenomenon as one in every 519 U.S. households received a foreclosure filing in April 2008.<sup>1</sup> According to RealtyTrac, an online directory of foreclosed properties, 243,353 foreclosure filings were recorded nationally during April 2008, representing a four percent increase from March and a nearly 65 percent increase from April 2007.<sup>2</sup> Weak housing sales, plummeting home val-

ues, tighter mortgage lending and a U.S. economy that has been slowing have left homeowners with fewer options beyond foreclosure. The tightening lending restrictions have left many homeowners in a position of being "upside down" on their home – owing more than it is worth – making it difficult if not impossible to refinance into a more affordable loan. While less than two percent of homes are currently in foreclosure, they exert downward pressure on the value of all homes.

The future real estate market remains cloudy.

According to Rick Darga, VP of Marketing with RealtyTrac Inc, "Lenders took possession of homes at a sharply higher rate, up 129 percent over last year, as more homeowners relinquished their homes." Darga estimates that between 750,000 and 1 million bank-

owned properties will enter the market this year, or approximately one-fourth of the homes up for sale.<sup>3</sup> Declining home prices and stricter lending requirements have exacerbated the foreclosure problem.

The foreclosure signs that have been appearing in less affluent communi-

ties for the past two years are now showing up in more upscale areas. They are appearing in the front yard of

**Las Vegas Area Foreclosures by Age of Adults in Household**

Age of Adults in household	Foreclosure Filings	Households	Percent in Foreclosure
18 to 39 years	1,037	32,289	3.21%
40 to 44 years	1,690	50,399	3.35%
45 to 50 years	5,625	232,683	2.42%
50 to 54 years	4,016	183,826	2.18%
55 years and over	700	51,835	1.35%
<b>Total</b>	<b>13,068</b>	<b>551,032</b>	<b>2.37%</b>

**Las Vegas Area Foreclosures Filings by Home Purchase Price**

Sale Price	Foreclosure Filings	Households	Percent in Foreclosure
Less than \$225,000	388	23,478	1.65%
\$225,000-\$299,999	2,685	134,520	2.00%
\$300,000-\$399,000	6,106	240,220	2.54%
\$400,000-\$499,999	2,775	97,890	2.83%
\$500,000 and greater	1,114	54,924	2.03%
<b>Total</b>	<b>13,068</b>	<b>551,032</b>	<b>2.37%</b>

homes that at one time may have cost \$1 million or more. While these homes currently represent a small share of the foreclosure market, their numbers are expected to continue to increase. The sub prime lending market allowed low income buyers with questionable credit and often minimal down payments to purchase homes. Interest only loans allowed middle class and upper income buyers and investors to buy beyond their purchasing power according to Robert E. Lang, Director of the Metropolitan Institute at Virginia Tech.<sup>4</sup> Not wanting to be left out, higher income households found ways to purchase even larger, more expensive homes. Many are finding themselves in the same bind as lower income and/or first time buyers.

Closer to home, Nevada posted the worst foreclosure rate in the nation, with one in every 146 households receiving a foreclosure related notice in April 2008. That figure is nearly four times the national rate. A ray of sunlight is that while filings were up 95 percent over April 2007, they were down 5 percent from March.<sup>1</sup> Dennis Smith of Las Vegas based Home Builders Research (HBR) feels that 2008 will be the “bottom” of the new housing market with new home prices remaining flat for the next 12 months. However, Smith feels existing home prices may still experience some softening over the next 12 months but start to rebound slowly after that.

While many states and areas within them were hit with high foreclosure rates, some states managed to avoid foreclosure problems nearly completely. Maine, Vermont and South Dakota had 286 properties, 29 properties and 24 properties respectively, with foreclosure filings.<sup>5</sup>

Given the demographic information it would appear that those most likely to incur a foreclosure are those in the “move up” category of buyer. That is, those who previously owned a home and were upgrading to a larger, more expensive home. The Las Vegas area has a wide range of foreclosure rates by Zip Code. The data shows that homes purchased for between \$400,000 and \$499,999 have the highest rate of foreclosure and those purchased for less than \$225,000 have the lowest rate. Income is a factor, with households having an annual income of between \$65,000



and \$79,999 the most likely to incur a foreclosure. Households with annual income of less than \$35,000 were the least likely to incur a foreclosure. The age group most likely to receive a foreclosure notice was the 40 to 44 year old group.

Among those affected by the wave of foreclosures is the family pet. Dogs, cats and other pets are ending up in animal shelters in large numbers in parts of the country. “The fate of people’s pets tracks their own financial fate,” says the ASPCA’s Steve Zawistowski. The precise numbers are difficult at best to ascertain due to the fact that there is no standard for recording pets given up due to foreclosure. Many owners only tell personnel that they are moving when they bring their pet to a shelter. It’s likely no coincidence that shelters seeing the greatest increase in pets given up, are found in areas where the foreclosure rates are high. The trend is expected to worsen in the coming months. The situation is serious enough that the Humane Society of the United States (HSUS) recently created a \$15,000 seed money fund to help shelters and rescue groups accommodate the surge in homeless pets. They are also seeking public contributions to aid in the effort.<sup>6</sup>

#### *Sources:*

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